THE CASE STUDY OF A NEW BUSINESS: THE PLAN · THE FINANCIALS · WHAT THE EXPERTS SAY

C4 [illegible]

Inc.®

THE MAGAZINE FOR GROWING COMPANIES

THE INC. NETWORK
800-444-1756
READER-TO-READER ADVICE

HOW TO BENEFIT FROM SLOW GROWTH

WHAT CARL SCHMITT HAS LEARNED ABOUT THE ADVANTAGES OF RUNNING A BUSINESS DEDICATED TO LIMITED GROWTH

One Company's Passion for Operating Without Wasting Business Resources

The nine cardinal rules for controlling payables

Business for Sale: A white-water rafting company

CARL SCHMITT, FOUNDER AND CEO OF UNIVERSITY BANK & TRUST CO.

MAR.19

BEINESDA MD 20814-3319
4520 E WEST HWY #54
SRI ACQUISITION E240
CONG INFO SERV COMPLIMENTARY
460541 452 0WCSRI98 034D
#452OWCSRI98 2#
#144F**********SCF 208

CONTENTS

FEATURES

32 FACE-TO-FACE
Waste Not, Want Not
How Ken Hendricks has built an entire company around a passion for operating without wasting business resources

46 **Second Thoughts on Growth** BY JOHN CASE & ELIZABETH CONLIN
A new generation of owners are building better, more durable companies by challenging everything the last decade taught us about fast growth

60 INC. COVER STORY
Small Business BY ELIZABETH CONLIN
For the past decade Carl Schmitt's company has been a laboratory testing one simple idea—that limited growth offers more opportunities than fast growth does

69 GOOD FORM
The Illustrated P&L BY ANNE MURPHY
Karl Reuther's homespun system for explaining to employees how their business makes money

72 MANAGING IN HARD TIMES
Account-Ability BY JILL ANDRESKY FRASER
Danny Sullivan learned the hard way how problems with accounts payable can jeopardize the future of an otherwise solid business

80 ANATOMY OF A START-UP
Diaper Dan BY JAY FINEGAN
Thanks to the current baby boom, Daniel Gold's new diaper-delivery service is ahead of projections. The next step: to become one of the first in his industry to franchise

COLUMNS

95 **Capital:** Quick Cash. BY ELLYN E. SPRAGINS
Where are banks sending the borrowers they don't want anymore? To factors, where your credit is as good as your customers'

98 **Marketing:** Building Sales. BY PAUL B. BROWN
How to make every marketing dollar count

102 **Family Business:** Putting the House in Order. BY LESLIE BROKAW
Turning around a troubled company can be hard—when it's your parents' company, it can be even more daunting

DEPARTMENTS

12 FYI
14 Letters
21 Network
26 New Businesses
28 Hotline
92 Hands On
116 Business for Sale

INC. COVER STORY

60 Small Business
Why Carl Schmitt has kept his company small

32 Ken Hendricks
Building a company without wasting business resources

72 Danny Sullivan
Learning how to manage an accounts-payable system

COVER PHOTOGRAPH
by Bob Holmgren

BENEFITS

Student horsepower

Administering benefits may seem like red tape to you, but for some college students it spells career opportunity. The International Foundation of Employee Benefit Plans (IFEBP), a trade association for benefits professionals, pairs up companies with summer college interns who are trained to figure out how to fill in COBRA forms, crunch 401(k) numbers, process claims, and perform other such tedious tasks.

Interns usually work two consecutive summers for a company. The foundation provides nine days of training in benefits-administration basics to supplement sponsors' on-the-job training. For information contact Dean Ossanna, IFEBP, P.O. Box 69, Brookfield WI 53008; phone (414) 786-6700. ❑

CAPITAL

BLOOD, SWEAT, & TEARS

How did you finance the growth of your company?

Venture capital	44%
Personal funds	43
Individual investors	35
Private placement	30
Bank loans	28
Loans from personal sources	12
Revenues from operations	9
Sweat equity	3

Note: Total is higher than 100% because of multiple answers.

Source: An *Inc.* survey of 89 public companies reporting a five-year growth rate of 1,088% or higher since 1985.

Scott Davis boosted productivity with a bonus plan.

COMPENSATION

You get what you pay for

Scott Davis, director of operations for Autodesk Inc., a Sausalito, Calif., software maker, was buying time—not productivity—by paying his production workers hourly wages. "People were working overtime who didn't need to, and the error rate was very high," he recalls. So he put his employees on salary and offered them a monthly productivity bonus—eliminating the incentive to work overtime. Six months out, errors had all but disappeared.

Five years ago, when Davis started the bonus system, he was managing 14 employees and the company had sales of $29 million. By 1990 sales had grown to $200 million, but his staff had grown only to 27. Today 90% of the production workers take home the bonus, which makes their pay 10% to 15% more than it would be if they still worked for an hourly wage. ❑

BANKING

Courting candidates

Trying to get a banker's attention? It pays to plan ahead, as Rick Heiniger, CEO of RHS Fertilizing/Spraying Systems, a $2.6-million *Inc.* 500 company based in Hiawatha, Kans., has discovered. He knew back in 1987 that if his company's sales kept expanding, RHS would quickly outgrow the Hiawatha banks. But he also knew RHS was still too small to interest big banks. So he called the region's larger banks, explained his situation, and asked if his was the kind of company they might want to keep an eye on. A handful of banks responded positively, and Heiniger began sending them monthly financial statements.

"They thought it was a novel thing," says Heiniger. Today RHS has a loan from one of the banks he courted. "When we walked in with a request, it was as if we'd been with them forever." ❑

MANAGING PEOPLE

Red-letter efforts

"We wanted to let employees know they should go the extra mile for clients," says David Fialkow, cofounder of National Leisure Group, a $40-million-plus travel agency in Boston. "But we needed to give them role models."

So a year ago he and his partner, Joel Benard-Cutler, erected the Wall of Fame, a bulletin board in the reception area covered with letters from customers praising employees. One note commends an agent-in-training for literally going the extra mile by biking over a ticket to a customer at the last minute. "We always knew how to handle bad letters; now we know how to handle the good," says Fialkow. ❑

SALES

Customer teachers

Training inexperienced salespeople can be difficult. So Richard Cucco, chief operating officer of Camadon Inc., a $25-million seller of fax machines and copiers in Pewaukee, Wis., invites customers or prospective customers into training classes to talk about how purchasing decisions are made. Some keys to a successful session: trainees prepare their questions in advance, and everyone remembers the meeting will not be used for selling.

What customers have to say has great credibility with students. And customers tend to be flattered by the company's interest. "They're talking about themselves for an hour and a half, which everybody likes to do," says Cucco. ❑

CHARTS: ELIOT BERGMAN; PHOTOGRAPH: JOHN HARDING

BOARD OF DIRECTORS

Worker on board

CarToon Complete Auto Service Inc., a $250,000 garage in Durham, N.C., can't compare in size with national chains, but chief executive Jerry Hiester does something the big guys don't. He includes the shop manager—a working mechanic himself—on his company's board of directors.

Having Don Anderson, the hands-on manager, at board meetings has helped the five-person company steer clear of overly ambitious plans. "We thought about expanding into transmission services—a high-ticket item—but Don pointed out that we just don't have enough hands and equipment," explains Hiester. "So we're going to stick to what we're good at."

Anderson holds the same voting rights as the rest of the board, which also includes Hiester's equity partner, lawyer, and CPA. "The others are all there in suits and ties, and they listen," says Hiester. "It makes Don feel better about his job." ❑

ON THE CHEAP

EXPANDING HARD DISK STORAGE

By Cary Lu

No matter what the capacity of your hard disk drive, sooner or later you will run out of space. But before you go out and buy a larger drive, consider two alternatives: higher-density storage and compression.

■ **Higher-density storage** is the simplest and best solution for increasing the capacity of your hard disk drive. Replacement hard disk controller boards for IBM PCs and compatibles are available from Perstor Systems Inc. ($199 to $275; 602-894-3494). These can increase the capacity of common hard disk drives by about 80%. And unlike compression products, a hard disk drive controller board does not take up precious RAM memory.

■ **Compression** analyzes a file's contents and codes for recurring patterns—the word *the* might be replaced by a 1, for example. Compression can increase your disk drive's capacity by about 80%. If the compression is done purely by software, the process takes longer every time you save a file—and more time later to expand the file for use. But by adding a specialized accessory hardware board to your computer, compression can be performed far more quickly.

Although many programs can do compression, only a few do compression invisibly so the computer appears to operate normally. On IBM PCs and compatibles, Stac Electronics (619-431-7474) offers Stacker Coprocessor Hardware ($229) and Stacker Software ($149), a software system for laptops and other models that can't accept hardware accessories. For the Macintosh, the DoubleUp hardware compression ($229 from Sigma Designs Inc.; 415-770-0100) works on Mac II models. It uses a software interface called DiskDoubler, which is also available separately for software compression on recent Mac models ($79 from Salient Software, 415-321-5375). ❑

CUSTOMER RELATIONS

Pushing the envelope

Time was, when sending Christmas cards was an effective way to plant your company's name before current and prospective customers. "People can't help feeling warmly about you," says John Kahl, president and CEO of Manco Inc., a $60-million marketer of a line of tapes, weather stripping, and mail supplies. But, says Kahl, there is only so much warmth to go around. So many companies now send cards that yours can get lost in the shuffle. That's why he has added other, less popular holidays to his mailing roster: Thanksgiving, St. Patrick's Day, and the Fourth of July, to be specific. "It's a good way to break through," he claims.

To heighten interest, he has the cards designed in-house so they're different from run-of-the-mill cards. "People open them up just to see what the next one will look like," says Kahl, whose mailing list includes some 30,000 people. "It's a much more personal way to reach them." ❑

MEETINGS

Reality check

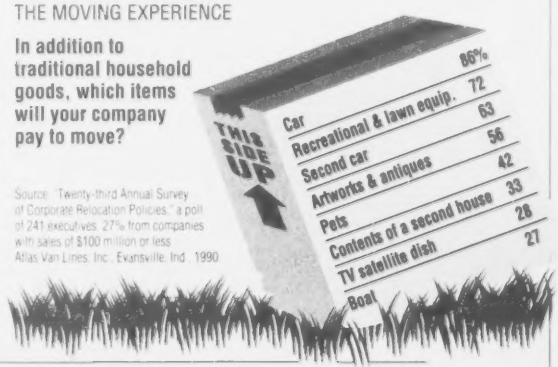
As district manager for Bridgeman's Restaurants Inc., a chain based in St. Louis Park, Minn., Steve Lampi had to run interference between store managers and corporate headquarters whenever it handed down some harebrained scheme. So when Lampi became operations manager, in 1987, he formed a committee of six shop managers. The group was to be consulted on menu additions and store improvements to help avoid confusion and costly mistakes.

When headquarters recently slated fresh-baked muffins to appear on a new menu, the committee pointed out that some stores lacked the bakery equipment needed to deliver the goods. So instead of misprinting the menus, simply *muffins* was added. "The meetings have saved us a lot of money, time, and aggravation," says Lampi, who became president of the company last April. ❑

RELOCATION COSTS

THE MOVING EXPERIENCE

In addition to traditional household goods, which items will your company pay to move?



Source: "Twenty-third Annual Survey of Corporate Relocation Policies," a poll of 241 executives, 27% from companies with sales of $100 million or less. Atlas Van Lines, Inc., Evansville, Ind., 1990

Reported by Teri Lammers, Susan Greco, Joshua Hyatt, and Martha E. Mangelsdorf

ILLUSTRATION: BRUCE SANDERS

BUSINESS FOR SALE

COLO. WHITE-WTR RAFTING CO.

THE BUSINESS A 19-year-old company providing a backcountry smorgasbord: white-water rafting (good for 75% of revenues), bicycle tours, high-mountain jeep excursions, and a concierge service that coordinates travel to all of the above.

FINANCIAL SUMMARY (in $ thousands)

	1988	1989	1990*
Sales	$452	$524	$482
Recast pretax net income before debt, depreciation & owner compensation	$135	$133	$130

*projected

PRICE $350,000

OUTLOOK Wilderness operators are dependent on a finite resource: the permits that grant access to the great outdoors. Renewable annually, the permits amount to ownership of market share, and this company has plenty of them. After taking over other operators—and acquiring their permits—it currently uses just 80% of its allotted number of "man-days" per year on the river. The unsold but locked-up slots may come in handy: raft riding and mountain biking are still on the rise nationwide.

PRICE RATIONALE What's for sale here are the permits, sundry sporting equipment, and a business with a history of roughly 25% net margins. Still, wilderness companies are tough to price. Rafting operators in desirable areas—such as this one—can sell for amounts as great as the annual gross (which renders this price a bargain), amounts equal to 2.6 times cash flow (this company's multiple is 2.7), or amounts that resist all statistical explanation. This is art, not science.

PROS A proprietary grip on market share, allegedly loyal employees, cooperative current owners (who'll remain nearby and available for hire), and room to grow. Winter activities could be expanded without capital expense. An antidote to corporate burnout?

CONS What's market share worth if the market is evaporating? Last year business at this particular location was down. Is this a yuppie pastime whose time has passed? —*Alessandra Bianchi*

Inc. has no stake in the sale of the business featured and cannot confirm the accuracy of financial or other information offered by the seller. Inquiries should be directed to Mountain Business Brokers, in Aspen, Colo.

COPYRIGHT © 1991 BY GOLDHIRSH GROUP, INC. All rights reserved. Editorial and executive offices at 38 Commercial Wharf, Boston, MA 02110. INC. (ISSN 0162-8968) is published monthly by Inc. Publishing Company, 38 Commercial Wharf, Boston, MA 02110. Subscription rate for U.S. and Possessions, 12 issues $25. All subscription correspondence should be addressed to INC. magazine, P.O. Box 54129, Boulder, CO 80322-4129. Please allow at least six weeks for change of address. Include your old address as well as new, and enclose if possible an address label from a recent issue. Single-copy requests: call (617) 248-8426. Second class postage paid at Boston, MA, and additional mailing offices. Postage paid at Mississauga, Ontario. POSTMASTER: Send address changes to INC. magazine, P.O. Box 54129, Boulder, CO 80322-4129. Material in this publication must not be stored or reproduced in any form without permission. Requests for permission should be directed to Permissions Coordinator, INC., 38 Commercial Wharf, Boston, MA 02110. Inc. is a registered trademark of Goldhirsh Group, Inc.

MARCH 1991 VOL. 13 NO. 3

ILLUSTRATION: BOB HAMBLY